

CHAPTER 3K

STATE DISABILITY INSURANCE TAX

HIGHLIGHTS

- Purpose Funds payments for employees who are unable to work due to pregnancy or non-occupational injury or illness.
- Tax Base First \$46,327 of each employee's annual wages.
- Tax Rate The rate is adjusted annually. The 2002 rate is 0.9%.
- Revenue

1999-00	\$1.62 billion*
2000-01	\$2.79 billion*
2001-02	\$3.09 billion*
- Disbursements

1999-00	\$2.00 billion*
2000-01	\$2.45 billion*
2001-02	\$3.37 billion*
- Administration Employment Development Department (EDD)

*Source: Employment Development Department

1. TAX OVERVIEW

The **disability insurance tax** is imposed on employees and funds the state disability insurance (SDI) program administered by California's EDD. The tax is levied on employees of establishments that employ one or more persons and have paid more than \$100 in wages in one calendar quarter. Tax collection is performed through mandatory payroll deductions. Revenues are deposited in the Unemployment Compensation Disability Fund.

Disability insurance provides partial compensation for wages lost due to pregnancy and non-occupational illnesses and injuries. Approximately 11.9 million California workers are covered by the program.

There is no comparable federal tax.

2. TAX RATE

The SDI tax rate is adjusted annually, based on the balance in the Disability Insurance Fund. The taxable wage limit is set by statute and changes when the maximum weekly benefit changes. For 2001, the tax was 0.9% on the first \$46,327 of wages earned by each employee. Recent changes in the tax rate and taxable wage limit are as follows:

- For 1999, the tax was 0.5% of the first \$31,767 of wages earned by each employee.
- In 2000, the maximum wage limit increased to \$46,327 in 2000 (due to an increase in the maximum weekly benefit to \$490 for disabilities beginning on or after January 1, 2000). The tax rate was 0.5% from January 1, 2000 through March 31, 2000 and 0.7% from April 1, 2000 through December 31, 2000.
- For 2001 and 2002, the maximum wage limit remained at \$46,327 and the tax rate was at 0.9%.

3. EXEMPTIONS

Certain groups of employees are exempt from paying (and therefore receiving) disability insurance coverage, as follows:

- Public agency employees;
- Public school employees;
- State of California employees (including state-funded institutions of higher education);
- Federal government employees;
- Self-employed individuals or employers;
- Employees of churches and certain other religious organizations;
- Individuals in certain types of family employment (e.g., children employed by their parents, spouses employed by their spouse, son, or daughter);
- Individuals who file religious exemption certificates stating that they rely upon prayer in the practice of religious healing; and
- Certain domestic workers who receive less than \$750 in cash wages during a calendar quarter.

**CHAPTER 3K
STATE DISABILITY
INSURANCE TAX**

Although exempt from the requirement to pay SDI taxes, public school and public agency employees may elect coverage as an entire entity, by bargaining unit, or for management and confidential employees. Individuals in family employment may also elect coverage. The tax rate for these employees is the same as for non-exempt employees.

Elections are also permitted by self-employed individuals, but the tax rate imposed on self-employed individuals may be different than on non-exempt employees. The self-employed tax rate is based on the net profit of the business that elects the coverage during the year prior to election.

4. BENEFITS

Disability insurance benefits vary depending on the employee's wages. Disability benefits for 2002 range from \$126 to \$490 per week. The maximum benefit increases to \$602 in 2003, \$728 in 2004, and \$840 in 2005. The total benefits paid to each employee equal 52 times that employee's weekly benefit; however, a claimant's benefits cannot exceed 100% of the wages paid to that claimant during his or her qualifying disability base period. The "base period" is the first four quarters of the last five quarters, depending upon the month in which the claim is filed. Effective January 1, 2003, the following base periods apply:

<u>MONTH CLAIM IS FILED</u>	<u>BASE PERIOD</u>
January, February, or March	October 1 through September 30
April, May, or June	January 1 through December 31
July, August, or September	April 1 through March 31
October, November, or December	July 1 through June 30

5. REVENUE

Revenues from the state disability insurance tax are held in the Unemployment Compensation Disability Fund, a special fund in the State Treasury. Revenues are maintained separately from the unemployment insurance tax revenues collected from employers. The Fund collected \$1.62 billion in fiscal year (FY) 1999-00, \$2.79 billion in FY 2000-01, and \$3.09 billion in FY 2001-02.

Disability benefit payments totaled \$2 billion in FY 1999-00, \$2.45 billion in FY 2000-01, and \$3.37 billion in FY 2001-02.

6. REFUNDS

An employee who works for multiple employers during a given year and cumulatively earns wages in excess of the taxable wage limit may file for a refund of the excess tax paid when filing his or her California personal income tax return.

7. VOLUNTARY PLANS

An employer, with majority consent of his or her employees, may substitute a voluntary plan for the state disability insurance plan. The plan must provide equal or greater benefits than the state plan and be approved by EDD.

Disability insurance contributions withheld by a voluntary plan (which are optional on the part of the employer and cannot exceed the state plan rate) are not remitted to EDD.

Instead, in the voluntary plan, the employer retains these moneys in trust to pay benefits and administrative costs of the plan. Currently, there are approximately 550 voluntary plans covering almost 650,000 workers (out of a total of approximately 15,340,000 workers in California). All voluntary plans are self-insured.

8. ADMINISTRATION

Any employer who pays in excess of \$100 in total wages during any calendar quarter is required to register with EDD. Employers are required to file quarterly returns with EDD in which they remit the wages they withhold from their employees, as well as annual returns in which they reconcile the amounts withheld during the year with amounts actually due. Generally, SDI withholding must be remitted by employers to EDD at the same time as other required employee withholding, such as state personal income taxes.

9. CODE

Unemployment Insurance Code Sections 2601-3272